PREQUALIFICATION

GUIDANCE NOTE ON PROCUREMENT

JUNE 2018

ASIAN DEVELOPMENT BANK

ADB

PREQUALIFICATION

GUIDANCE NOTE ON PROCUREMENT

JUNE 2018

ASIAN DEVELOPMENT BANK

6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 632 4444; Fax +63 2 636 2444
www.adb.org

ISBN 978-92-9261-192-7 (print), 978-92-9261-193-4 (electronic)
Publication Stock No. TIM189393-2
DOI: http://dx.doi.org/10.22617/TIM189393-2

Notes:
In this publication, “$” refers to United States dollars.
Corrigenda to ADB publications may be found at http://www.adb.org/publications/corrigenda.

CONTENTS

Tables, Figures, and Boxes iv

About This Publication v

Abbreviations viii

Executive Summary ix

I. Introduction 1

II. Advantages and Disadvantages of Prequalification 3

III. Considerations When Using Prequalification 5

IV. Prequalification Process 14

V. Resources for Further Review 20

TABLES, FIGURES, AND BOXES

TABLES

1. Advantages of Prequalification 3

2. Example Evaluation Score Definitions for Scored Prequalification Criteria 9

FIGURES

1. Prequalification within the ADB Procurement Cycle 2

2. Example of the Use of Scored Criteria to Limit Bidders, Using the Minimum Score Method 7

3. Example of Prequalification Using Packages 11

4. The Prequalification Process 15

5. Typical Prequalification Evaluation Criteria 16

BOXES

1. Circumstances Where Prequalification May Be Appropriate 2

2. Limiting Prequalified Applicants Invited to Bid 10

ABOUT THIS PUBLICATION

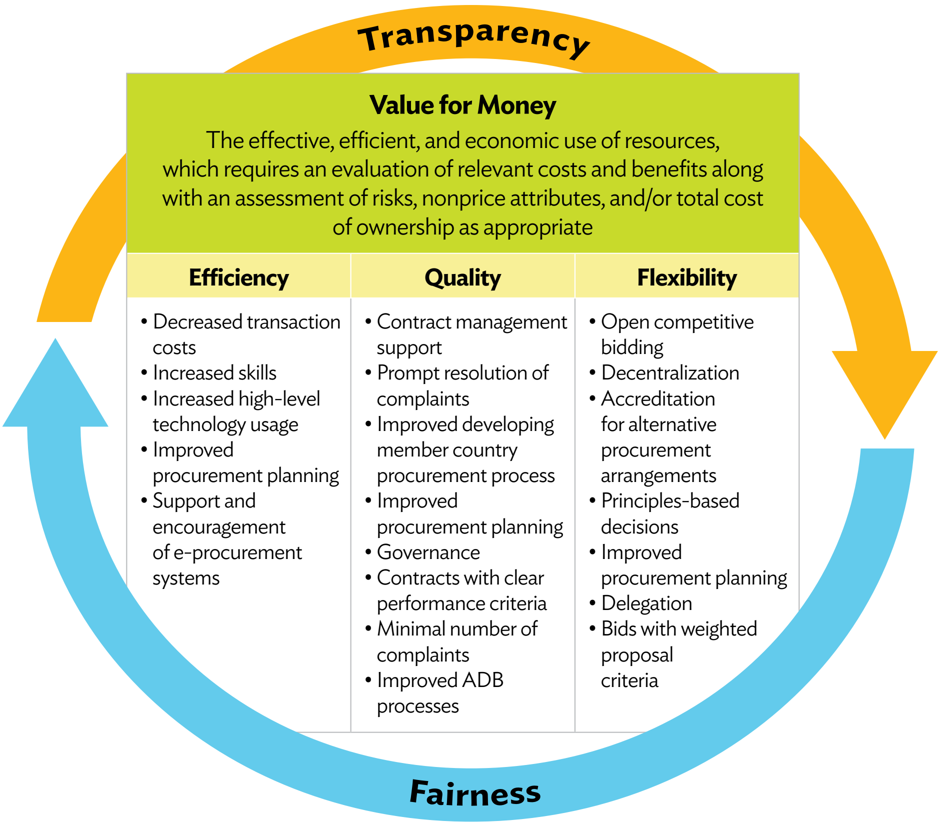
In April 2017, the Asian Development Bank (ADB) approved its new procurement framework, the ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time); and the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time). These replace the former Guidelines on the Use of Consultants (2013, as amended from time to time) and Procurement Guidelines (2015, as amended from time to time). The procurement policy and the procurement regulations address the procurement activities of project executing agencies and implementing agencies on projects financed in whole or in part by a loan or grant from ADB, or by ADB-administered funds. ADB designed the 2017 procurement policy to deliver significant benefits and flexibility throughout the project procurement cycle, as well as to improve project delivery through a renewed focus on the concepts of quality, value for money (VFM), and fitness for purpose.

This note is part of a series of guidance notes published by ADB in 2018 to accompany the 2017 procurement policy and the procurement regulations. Each note discusses a topical issue for borrowers (including grant recipients), bidders, and civil society under the new framework (see list below). The guidance notes cross-reference each other frequently and should be read in conjunction. All references to “guidance notes” pertain to these notes. The notes may be updated, replaced, or withdrawn from time to time.

List of Guidance Notes for the 2017 ADB Procurement Policy and the Procurement Regulations

1. Value for Money
2. Procurement Risk Framework
3. Strategic Procurement Planning
4. Procurement Review
5. Alternative Procurement Arrangements
6. Open Competitive Bidding
7. Price Adjustment
8. Abnormally Low Bids
9. Domestic Preference
10. Prequalification
11. Subcontracting
12. Consulting Services Administered by ADB Borrowers
13. Nonconsulting Services Administered by ADB Borrowers
14. High-Level Technology
15. Quality
16. Bidding-Related Complaints
17. Noncompliance in Procurement
18. Standstill Period
19. State-Owned Enterprises
20. E-Procurement
21. Framework Agreements for Consulting Services
22. Public–Private Partnerships
23. Contract Management
24. Fragile, Conflict-Affected, and Emergency Situations

ADB procurement reforms intend to ensure VFM by improving flexibility, quality, and efficiency throughout the procurement cycle (see illustration below and the *Guidance Note on Value for Money*). VFM is part of a holistic procurement structure with three support pillars: efficiency, quality, and flexibility. The two key principles of transparency and fairness weave across all elements of the structure.



Value for Money

The effective, efficient, and economic use of resources, which requires an evaluation of relevant costs and benefits along with an assessment of risks, nonprice attributes, and/or total cost of ownership as appropriate

Efficiency	Quality	Flexibility
• Decreased transaction costs • Increased skills • Increased high-level technology usage • Improved procurement planning • Support and encouragement of e-procurement systems	• Contract management support • Prompt resolution of complaints • Improved developing member country procurement process • Improved procurement planning • Governance • Contracts with clear performance criteria • Minimal number of complaints • Improved ADB processes	• Open competitive bidding • Decentralization • Accreditation for alternative procurement arrangements • Principles-based decisions • Improved procurement planning • Delegation • Bids with weighted proposal criteria

Time

Time is an important element of VFM. When a project is delivered promptly or when a process is completed rapidly, greater value is created for all stakeholders. For example, a road project completed early provides economic benefit, security, or other value to the community it serves. It increases the return on investment to the executing agency and accelerates the project and payment cycle to the successful bidder. Likewise, a project delivered late loses significant value.

When considering VFM in the context of procurement, pay attention to anything that (i) shortens the procurement cycle time frame or (ii) accelerates delivery of the development project.

Objective

This guidance note is intended to assist readers by elaborating on and explaining ADB's 2017 procurement policy and procurement regulations for borrowers (including grant recipients).

This note identifies additional information for the reader to consider when applying ADB's procurement policy and procurement regulations to their circumstances.

Living Document

This guidance note is intended to be a living document and will be revised as required.

Be sure to check the ADB Business Center website for the latest version and updates, https://www.adb.org/business/main.

The Reader

In many circumstances, readers are expected to use this guidance note in a manner unique to their needs. For consistency throughout the suite of guidance notes, the following assumption is made about the reader:

The reader is a professional involved in activities financed in whole or in part by an ADB loan or grant, or by ADB-administered funds.

FAQs

Frequently asked questions, clarifications, examples, additional information, links to training, and other useful resources will be made available on the ADB website.

Be sure to check the ADB Business Center website for more information, https://www.adb.org/business/main.

Legal and Order of Priority

This guidance note explains and elaborates on the provisions of the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) applicable to executing (and implementing) agencies under sovereign (including subsovereign) projects financed in whole or in part by an investment loan from ADB (i.e., excluding ADB results- or policy-based loans), ADB-financed grant (excluding ADB-administered technical assistance and staff consultancies), or by ADB-administered funds.

In the event of any discrepancy between this guidance note and the procurement regulations, the latter will prevail. The financing agreement governs the legal relationships between the borrower and ADB. The rights and obligations between the borrower and the provider of goods, works, or services are governed by the specific procurement document issued by the borrower and by the contract signed between the borrower and the provider, and not by this guidance note.

ABBREVIATIONS

ADB	—	Asian Development Bank
IFP	—	Invitation for Prequalification
PQD	—	prequalification document
PQER	—	Prequalification Evaluation Report
SPQD	—	Standard Procurement Document for Prequalification of Bidders
VFM	—	value for money

EXECUTIVE SUMMARY

This guidance note demonstrates the benefits of using a robust prequalification process and shows how it may be applied in ADB operations. It distinguishes between work required during the prequalification and bidding phases of the procurement cycle. During the prequalification phase, the borrower (or grant recipient) assesses the suitability of an applicant to work on a project before inviting them to submit a bid.

The following features are new to the prequalification process:

- the ability to limit the number of qualified applicants that are invited to bid and
- criteria for historical contract nonperformance.

A robust prequalification exercise may

Increase Efficiency and Reduce Procurement Time

- Ensures that only applicants who meet the requirements of the project—including experience and capability—are invited to submit bids, while at the same time allowing for healthy competition.

Ensure Quality

- The ability to limit the number of qualified applicants invited to bid (new in this guidance note) leads to higher quality outcomes by reducing the number of bidders to a manageable number of the most qualified applicants.

Reduce Risk and Improve Value for Money

- The provisions for handling historical contract nonperformance among bidders reduce risk and improve value for money.

I. Introduction

1.1 This guidance note is intended to provide clarity on the circumstances where it is appropriate to conduct prequalification—and the process to be followed—in projects financed in whole or in part by a loan or grant from the Asian Development Bank (ADB), or by ADB-administered funds. The Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) include prequalification as a mechanism intended to ensure that only those applicants that have adequate capabilities and resources submit bids for the supply of goods, works, and services.

1.2 Prequalification is a process associated with open competitive bidding wherein the borrower (or grant recipient) assesses the suitability of applicants to carry out a specific contract before inviting them to submit bids. Generally, all applicants that meet the minimum prequalification criteria are invited to bid. There are situations where the number of successfully prequalified applicants invited to submit bids may be limited (section III of this guidance note).

1.3 The prequalification process is distinct from the bid process—which concentrates on the technical and financial aspects of specific bids.

1.4 The prequalification procedure described in this guidance note applies to the procurement of (i) goods; (ii) large and complex works; (iii) plant: design, supply, and install; and (iv) design-and-build projects, among others, requiring bidders (or a group of bidders) who are suitably experienced in the type of work and construction technology involved in the contract to demonstrate their capacity.

1.5 In the case of consulting services, prequalification is included in the context of the process of shortlisting firms and is considered in the *Guidance Note on Consulting Services Administered by ADB Borrowers*. Prequalification of nonconsulting services is considered in the *Guidance Note on Nonconsulting Services Administered by ADB Borrowers*.

1.6 The prequalification process is optional and should be used on a "fit-for-purpose" basis, i.e., where the nature and complexity of the contract are such that the value of prequalification would create in the procurement process exceeds the costs and its associated risks. Prequalification may be appropriate in the circumstances described in Box 1.

Box 1

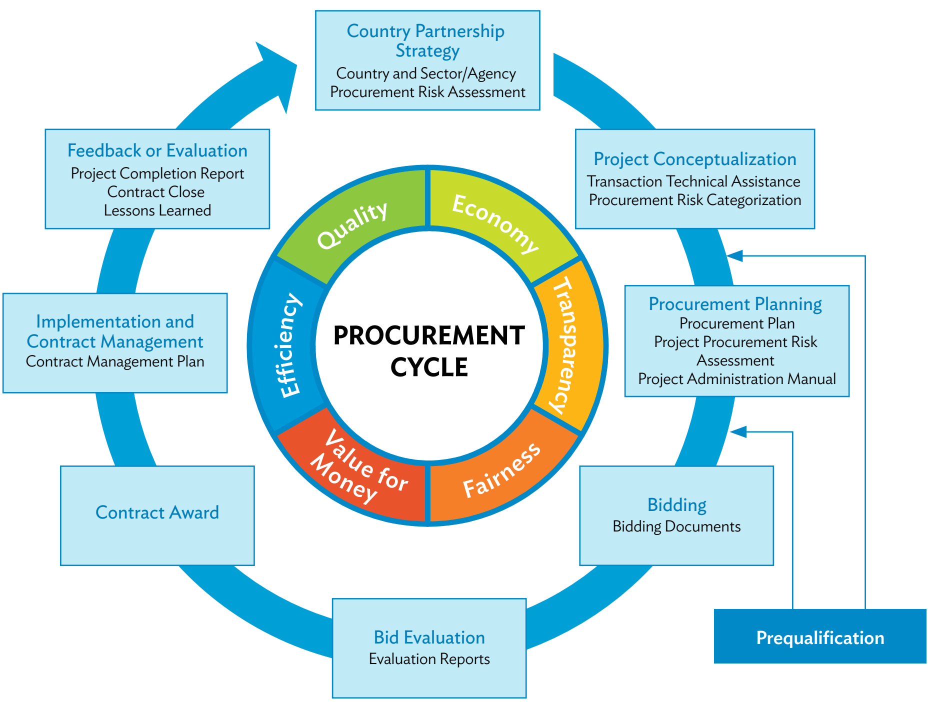
Circumstances Where Prequalification May Be Appropriate

- Large or complex works
- Custom-designed equipment
- Complex industrial plant
- Complex information and technology systems
- High-level technology
- Turnkey, design-and-build contracts
- Any contract where the high cost of preparing detailed bids may discourage participation
- Where the number of bidders likely to be qualified is high
- Where a “standing list” of prequalified bidders is to be established for groups of contracts to be awarded over time

Source: Asian Development Bank.

1.7 Figure 1 illustrates where the prequalification process occurs in the ADB procurement cycle.[1]

Figure 1: Prequalification within the ADB Procurement Cycle



Source: Asian Development Bank.

[1] Prequalification may take place as early as the project conceptualization and processing stage.

II. Advantages and Disadvantages of Prequalification

A. Advantages

2.1 Prequalification provides advantages to prospective bidders, as well as to borrowers, some of which are listed in Table 1.

Table 1: Advantages of Prequalification

Advantages	Prospective Bidders	Borrowers
Screens potential bidders for contract specific requirements and capability	✓	✓
Prospective bidders avoid the expense of bidding if not sufficiently qualified	✓	
Reduces or eliminates the need to evaluate bids from unqualified bidders	✓	✓
Enables prospective bidders to understand minimum requirements, providing them with the opportunity to join with other prequalified bidders to bid for the contract	✓	✓
Builds confidence that unqualified competitors will be excluded from submitting unrealistically low bids	✓	
Enables the sourcing strategy to be altered in response to the level of interest from qualified prospective bidders		✓
Exposes potential conflicts of interest of prospective bidders with other parties involved in the prequalification	✓	✓
Enables identification of prospective bidders eligible for a domestic preference, where this is applicable	✓	✓

Source: Asian Development Bank.

B. Disadvantages

2.1 Potential disadvantages of prequalification include that

(i) it may increase the total procurement process time; and
(ii) it may facilitate corruption and collusion among applicants, since the identification of prequalified applicants will be made public.

III. Considerations When Using Prequalification

3.1 Several factors should be given special consideration when deciding to conduct prequalification:

(i) limiting the number of bidders,
(ii) treatment of multiple "lots," and
(iii) treatment of subcontractors.

A. Limiting the Number of Bidders

3.2 Generally, all applicants that meet the minimum prequalification criteria should be invited to bid. However, the 2017 procurement regulations (in Appendix 3, para. 19) allow the borrower to limit the number of prequalified applicants to be invited to bid for the contract, provided

(i) any criteria used to limit the number of prequalified applicants to be invited to bid are stated in the prequalification documents, and
(ii) doing this does not limit fair competition.

3.3 Limiting the number of prequalified applicants invited to bid should be used sparingly and only in the following circumstances:

(i) Where the strategic procurement planning suggests that the executing agency has capacity to administer the process effectively (refer to the *Guidance Note on Strategic Procurement Planning*).
(ii) Where the relevant expertise cannot be identified from the standard prequalification criteria, e.g., in projects that are highly specialized or involve high-level technology (refer to the *Guidance Note on High-Level Technology*).
(iii) Where the means of delivering the project outcomes require innovation, or the project outcomes can be delivered in different ways.
(iv) Where the market assessment suggests there may be a large number of applicants that are likely to be prequalified.

3.4 Limiting the number of prequalified applicants invited to bid is achieved by using "scorable" prequalification criteria. These are criteria related to the special requirements of the project that are scored against a predefined scoring scale so that overall scores are calculated for each applicant for the purpose of comparison of their relative capabilities. The scored prequalification criteria are used in addition to the pass/fail prequalification criteria.

3.5 Two methods can be used to reduce the number of prequalified applicants invited to bid:

(i) the minimum cut-off score methodology and
(ii) the score ranking methodology.

3.6 The minimum cut-off score methodology involves setting a minimum score against the scored prequalification criteria that applicants must meet to be prequalified. In this methodology, all applicants that have achieved the minimum cut-off score must be invited to bid.

3.7 The ranking methodology involves selecting the top scoring applicants to be invited to bid. The number of applicants to be invited to bid is required to be stated in the prequalification document.

3.8 To ensure that applicants invited to bid are of a suitable quality, the borrower may wish to combine the ranking and the minimum cut-off score methodologies, stating in the prequalification document that a fixed number (or range) of prequalified applicants will be invited to bid subject to meeting a specified minimum cut-off score.

3.9 The choice of methodology used should be informed by the market assessment and the nature of the contract. For example, if the assessment shows a large number of applicants are likely to be prequalified, or the number of applicants likely to be prequalified is unknown, the ranking approach may be more suitable. If capability of bidders is the primary consideration, a minimum cut-off score may be more suitable (if limiting prequalified applicants is still considered appropriate in this circumstance). If the market assessment shows a small number of applicants, the use of prequalification may not be an appropriate option. Instead, postqualification should be used with the appropriate qualification criteria.

3.10 An example of a prequalification evaluation using pass/fail and scored prequalification criteria to limit bidders, using the minimum cut-off score methodology, is shown in Figure 2.[2] Note that the scored prequalification criteria and the scoring scale shown in the example are for illustration purposes only and will vary depending on the nature of the contract, contract requirements, and the borrower's preferred scoring scale methodology.

3.11 In this example, a two-step evaluation process is used. In Step 1, applications are assessed against the standard pass/fail prequalification criteria and assessed as either "pass" or "fail." In this example, Applicants C and D fail one or more of the pass/fail criteria and, therefore, do not progress to the next stage of the evaluation.

[2] Note that, in this example, a minimum cut-off score of 80% was used.

Figure 2: Example of the Use of Scored Criteria to Limit Bidders, Using the Minimum Score Method

Prequalification Evaluation Criteria	Scoring Method	Applicant A	Applicant B	Applicant C	Applicant D	Applicant E	Applicant F	Applicant G
Step 1: Pass/Fail Prequalification Criteria								
Eligibility	Pass/Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Historical Contract Nonperformance	Pass/Fail	Pass	Pass	Fail	Pass	Pass	Pass	Pass
Financial Situation	Pass/Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Average Annual Turnover	Pass/Fail	Pass	Pass	Pass	Fail	Pass	Pass	Pass
Technical Capacity	Pass/Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Experience (contracts of similar size and nature)	Pass/Fail	Pass	Pass	Fail	Pass	Pass	Pass	Pass
Experience (key activities)	Pass/Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Step 1 Result	**Pass/Fail**	**Pass**	**Pass**	**Fail**	**Fail**	**Pass**	**Pass**	**Pass**
Step 2: Scored Prequalification Criteria (Used for limiting bidders. Scored on a scale of 0 to 5.)								
Experience (number of successfully completed contracts of similar size and nature in past 5 years in excess of the minimum requirement)	Scored	4	3	Not scored	Not scored	2	4	3
Demonstrated Innovations Used in Past Projects	Scored	4	3	Not scored	Not scored	2	5	5
Preliminary Methodology for the Project	Scored	3	3	Not scored	Not scored	3	5	3

continued on next page

Figure 2 *continued*

Prequalification Evaluation Criteria	Scoring Method	Applicant A	Applicant B	Applicant C	Applicant D	Applicant E	Applicant F	Applicant G
Examples of Quality Management Processes and Systems Applied to Past Projects	Scored	5	3	Not scored	Not scored	2	4	4
Risk Management Processes and Systems	Scored	5	3	Not scored	Not scored	3	5	5
Step 2 Result	**Average**	**84%**	**60%**	**Not scored**	**Not scored**	**48%**	**92%**	**80%**
Prequalification Outcome								
Overall Prequalification Result	Score	84%	60%	Fail	Fail	48%	92%	80%
Invite to Bid?	Meets minimum cut-off score	Yes	No	No	No	No	Yes	Yes

Source: Asian Development Bank.

3.12 Applicants A, B, E, F, and G are evaluated against the scored prequalification criteria, in this case using a scoring scale of 0 to 5 against each criterion. The Step 2 result is calculated by dividing the sum of the 5 criteria scores together and dividing by the maximum possible score of 25 to arrive at an overall percentage score (e.g., Applicant A's overall Step 2 score = 100 x (4+4+3+5+5)/25 = 84%). This calculation method implies equal weighting applied to each scored prequalification criterion, but different weightings may be applied to reflect the relative importance of the criteria.

3.13 In this example, a minimum cut-off score of 80% was set and documented in the prequalification document. Applicants A, F, and G meet the minimum score and so are selected to be invited to bid. Applicants B and E did not meet the minimum score of 80% and so were not selected to be invited to bid.

3.14 Note that similar criteria can be used as pass/fail criteria and scored prequalification criteria, if suitable. In the above example, one of the standard pass/fail criteria in Step 1 is Experience, expressed as a minimum number of contracts of a similar size and nature. The pass level may be three contracts of a similar size and nature in the past 5 years. A similar Experience criterion is used in Step 2 as a scored criterion, namely, "Number of successfully completed contracts of similar size and nature in past 5 years in excess of the minimum requirement." Utilizing a rating scale of 0 to 5, scores may be assigned based on the number of contracts the applicant has performed in excess of the minimum requirement as illustrated in Table 2.

Table 2: Example Evaluation Score Definitions for Scored Prequalification Criteria

Criterion = Experience (Number of contracts performed in past 5 years in excess of the minimum requirement)						
Evaluation Score	0	1	2	3	4	5
Number of contracts in excess of minimum requirement (i.e., in excess of three)	0 contracts	2 contracts	4 contracts	6 contracts	8 contracts	10 or more contracts

Source: Asian Development Bank.

3.15 Using this method, an applicant that has performed a total of five contracts, passes the Experience criterion in Step 1 having met the minimum requirement of three contracts, and is given an evaluation score of 1 in Step 2 because it has performed two contracts in excess of the minimum requirement of three.

3.16 Scored evaluation criteria that may be used to limit bidders may include

(i) management capability,
  (a) risk management processes and systems,
  (b) knowledge management and continuous improvement,
  (c) quality management system and quality assurance processes, and
  (d) workplace health and safety management systems;

(ii) project methodology and capability,
  (a) project management capability, and
  (b) preliminary project methodology;

(iii) innovation and high-level technology capability,
  (a) innovative solutions supporting project objectives, and
  (b) experience in the use of the high-level technology.

3.17 The use of scored prequalification criteria carries with it the risk that subjectivity may be introduced into the prequalification process. In the above example, the scored criterion "risk management processes and systems" is difficult to evaluate with complete objectivity. A way of reducing subjectivity is to use quantifiable criteria (e.g., the number of contracts of similar size and nature). Even so, there may be some subjectivity in the interpretation of applicant responses in determining scores and, therefore, sound professional judgment will be required during the evaluation.

3.18 Another way to reduce subjectivity is to establish "score descriptors" prior to issuance of prequalification documents, setting out evidence required to be provided by applicants in support of the criteria at each score level. Table 2 shows an example of the use of score descriptors. Score descriptors are used to guide the evaluation panel and should be included in the prequalification document. For more information on the use of score descriptors, refer to the *Guidance Note on Quality.*

3.19 Where limiting the number of prequalified applicants invited to bid is to be used, the prequalification documents shall specify

(i) the methodology to be used will be to limit bidders (i.e., minimum cut-off score method or ranking method);
(ii) where the minimum score methodology is to be used—the minimum cut-off score;
(iii) where the ranking methodology is to be used—the number of applicants to be invited to bid;
(iv) the criteria to be used for evaluation; and
(v) the method for applying the criteria, including relative weighting.

3.20 In the case of the ranking methodology, the number of selected bidders will depend on the project but should balance the efficiencies gained from limiting the number of bids to be evaluated against the potential benefits of having a greater number of responses (i.e., improving the probability of receiving suitable bids, increasing competition).

3.21 A summary of this subsection is provided in Box 2.

Box 2

Limiting Prequalified Applicants Invited to Bid

- Limiting the number of successfully prequalified applicants that are invited to bid is allowed under the 2017 procurement regulations.
- It should be used sparingly—only when the standard prequalification criteria are not sufficient to identify suitable applicants or to reduce the number of prequalified applicants to a manageable level.
- Scored prequalification criteria should be used to limit the number of qualified bidders.
- Two methodologies can be employed to limit bidders: minimum cut-off score method and ranking method.
- Where limiting the number of prequalified applicants invited to bid is to be conducted, the prequalification documents should specify
  - › the criteria used to evaluate applicants,
  - › the relative weighting of the criteria,
  - › the methodology to be employed (minimum cut-off or ranking),
  - › the minimum cut-off score (where the minimum score method is used), and
  - › the number of bidders to be invited to bid (where ranking is used).
- The number of bidders to be selected should balance efficiency and competition.

Source: Asian Development Bank.

B. Treatment of Multiple Contracts/Lots

3.22 Depending on the nature of the project, the scope may be divided into separate "contracts/lots" as per the following example:

(i) Lot 1: Build road section A (60 kilometers [km]).
(ii) Lot 2: Build road section B (80 km).

3.23 The borrower may decide to conduct separate prequalification exercises for each contract/lot, or for groups of contracts/lots ("packages"). In the latter case, contracts/lots should only be grouped into packages in the same prequalification exercise if such are of similar type, size, and scope. In the case of prequalification exercises involving multiple contracts/lots, applicants should be instructed in the prequalification documents to indicate the contracts/lots for which they are applying.

3.24 It should be noted that when prequalifying applicants using multiple contracts/lots grouped into a package, the objective of the exercise is to determine whether applicants qualify for each contract/lot in the package separately and whether the applicants have the capacity to perform all contracts/lots or combinations of contracts/lots. In the example in Figure 3, applicants would be prequalified for Lot 1 and Lot 2 individually. No opinion would be given on whether applicants could perform Lots 1 and 2 combined. Aggregation of qualification requirements is not done at the prequalification stage, but at the bid stage.

Figure 3: Example of Prequalification Using Packages

Prequalification for a Package Consisting of "Lot 1" and "Lot 2"

Lot	Description	Prequalification Applications				
		Applicant A	Applicant B	Applicant C	Applicant D	Applicant E
Lots for which applicant has applied		Lot 1 Lot 2	Lot 1 Lot 2	Lot 1 Lot 2	Lot 1	Lot 2
Experience pass/fail evaluation						
Lot 1	Road Section A	Pass	Pass	Pass	Fail	Did not apply
Lot 2	Road Section B	Pass	Fail	Pass	Did not apply	Pass

KEY:
Pass = Passed qualification
Fail= Did not pass qualification
Did not apply = Did not apply for lot

Lot 1: Road Section A = 60 kilometers of road construction, estimated value $30 million

Lot 2: Road Section B = 80 kilometers of road construction, estimated value $40 million

Source: Asian Development Bank.

3.25 In this example, the package for which the prequalification process is conducted consists of Lot 1, Road section A, comprising 60 km of road construction with estimated value of $30 million, and Lot 2, Road section B, comprising 80 km of road construction with estimated value of $40 million.

3.26 Applicants A, B, and C have applied for both Lot 1 and Lot 2. Applicant D has indicated interest in Lot 1 only and Applicant E has indicated interest in Lot 2 only.

3.27 Applicants A and C pass the experience criteria for Lot 1 and Lot 2, meaning that they have constructed roads of value equivalent to (or equivalent to some specified percentage of) Lot 2, Road section B. Since they have passed the experience criterion for Lot 2, they also pass the experience criterion for the smaller Lot 1.

3.28 Applicant B met the experience requirement for Lot 1, but did not qualify for the higher value Lot 2. Applicant D applied for Lot 1 but failed to show evidence of past experience sufficient to perform Lot 1. Applicant E applied for Lot 2 only and has provided evidence of past experience sufficient for it to pass the experience criterion for Lot 2.

3.29 Applicants should not be disqualified if they have not provided unique contract experience for each lot (for example, three contracts for Lot 1 and three different contracts for Lot 2). In the preceding example, if Applicant A submitted three contracts for $40 million each in support of its application for Lot 2, it is deemed to have also qualified for Lot 1, even though it did not submit three other contracts of $30 million supporting its application for Lot 1.

C. Treatment of Subcontractors

3.30 The prequalification of subcontractors should generally be avoided at the prequalification stage, because it may lock applicants into subcontract arrangements without the ability to change at the time of bidding. Instead, subcontractors' capabilities should be assessed during the bid. However, if the nature of the project and key activities are such that prequalification of subcontractors is warranted, qualification requirements should explicitly be included in section 3 of the prequalification document. In addition, changing subcontractors at bid submission should only be allowed in exceptional cases, provided such requirements are clearly included in the prequalification documents and with prior approval of the borrower or ADB.

3.31 Depending on the circumstances, the employer may not accept changes in subcontracting arrangements at bidding stage if, because of reassessment, the applicant is no longer compliant to the evaluation and qualification criteria requirements or it may have implications on competition.

3.32 In most circumstances, it is the experience of the applicant that is being prequalified, regardless of how the role of the applicant was described at the time that experience was obtained. Where applicants submit experience gained as subcontractor, this may be viewed as equivalent to experience obtained as main contractor subject to an assessment of the extent of the involvement, scope or complexity, and nature of work and services provided by the subcontractor under the previous contract. Before deciding, this should be carefully assessed on a case-by-case basis.

3.33 Claiming experience of affiliated companies to satisfy qualification requirements. The ADB Standard Procurement Document for Prequalification of Bidders (SPQD) (in its Instructions to Applicants [ITA] clause ITA 25.4) states that "unless permitted in the Application Data Sheet, the qualifications of the other firms, including the Applicant's subsidiaries, parent entities, affiliates, subcontractors (other than Specialist Subcontractors in accordance with ITA 25.2) or any other firm(s) different from the Applicant shall not be considered." In the default provision of the SPQD, it is the applicant who must meet the qualification requirements. However, in exceptional circumstances, depending on the nature of the project scope and market assessment, the applicant may claim the experience, capability, and resources of its parent, subsidiary, and/or other affiliates[3] (referred to collectively as "affiliates") for the purposes of meeting the minimum qualification requirements for a specific application, provided such requirements were prior reviewed, agreed by ADB, and included in the prequalification documents before issuance. For further details on this topic, refer to the ADB *User's Guide to Prequalification of Bidders* (2018).

---

[3] "Affiliates" is a broad term and would include, in addition to parent and subsidiary companies, "sister" companies of an applicant—that is, companies that are owned directly or indirectly by the applicant's parent company.

IV. Prequalification Process

4.1 The borrower manages assessing the qualifications of prospective bidders. Figure 4 shows the process flow for prequalification.

4.2 The main steps in the prequalification process are summarized in the following subsections.

A. Step 1: Notification and Advertisement

4.3 Timely notification of procurement opportunities is essential in open competitive bidding, providing applicants with enough time to prepare and submit prequalification applications.

4.4 An Invitation for Prequalification (IFP) is required to be developed and published by the borrower in accordance with requirements for notification and advertising of bidding opportunities described in the 2017 procurement regulations and the *Guidance Note on Open Competitive Bidding*.

4.5 Notification of a forthcoming procurement is required to be issued prior to the issuance of an IFP through a procurement notice. In the case of advance contracting, an advance contracting notice is required to be issued.

B. Step 2: Preparation and Issuance of Prequalification Documents

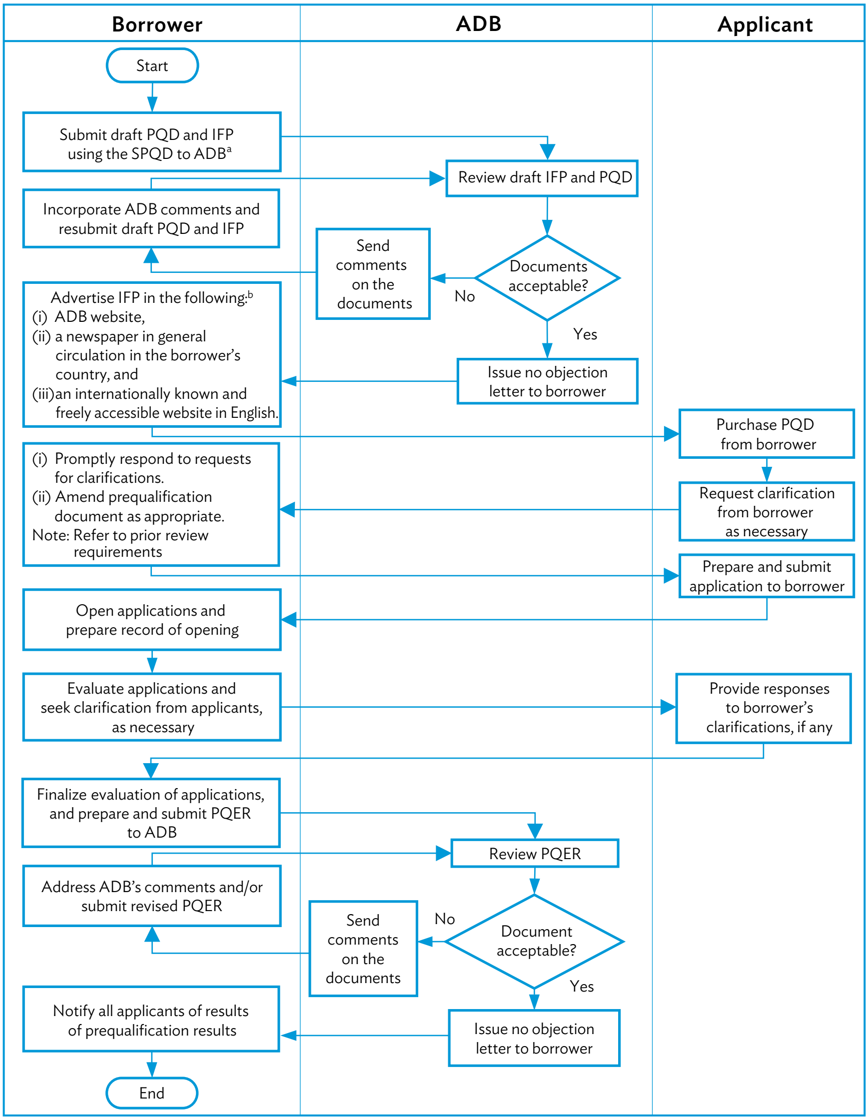
4.6 Where prior review applies, the draft prequalification document (PQD) and the IFP, before issuance, should be submitted to ADB for no-objection. For details on review requirements, refer to the *Guidance Note on Procurement Review*.

4.7 Unless ADB otherwise agrees, the borrower should prepare the PQD using the published version of the SPQD on the ADB website and without editing Section 1—Instructions to Applicants. Information in sections 2–6 should be provided and/or updated according to specific contract requirements.

4.8 The prequalification evaluation criteria selected must

(i) relate to qualifications essential to ensuring satisfactory execution of the contract;

Figure 4: The Prequalification Process



IFP = invitation for prequalification, PQD = prequalification document, PQER = prequalification evaluation report, SPQD = Standard Procurement Document for Prequalification of Bidders.

[a] This process flow shows the prequalification process following the prior review procedure. For further details on review requirements, refer to the project procurement plan and the *Guidance Note on Procurement Review*.

[b] For requirements on advertising and notification, refer to section IV A and the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time).

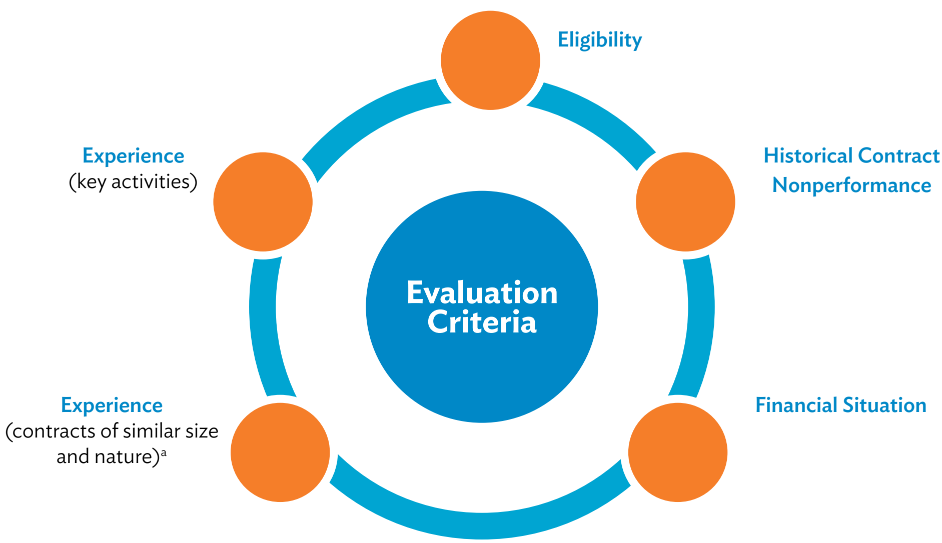
Source: Asian Development Bank.

(ii) be chosen so that only applicants qualified to carry out the work are prequalified and permitted to bid;
(iii) be tailored consistent with information on supply market characteristics obtained from the market assessment (e.g., a less mature supply market may lead to a lower level of minimum experience being specified); and
(iv) be established so that they neither inhibit competition nor limit the number of eligible applicants to be prequalified, as follows:
    (a) overly "strict" or excessive criteria (i.e., those going beyond what is strictly necessary for the needs of the contract) may seriously hamper competition, and may lead to complaints; and
    (b) overly "lenient" criteria may result in an excess of unsuitably qualified applicants and may deter better qualified applicants from bidding and allow low priced bids from underqualified bidders.

4.9 The PQD must be clear about the information required of applicants for each criterion.

4.10 The SPQD of ADB for large and complex civil works and technically complex plant includes standard prequalification evaluation criteria. Such criteria must be adapted to the project or contract in question but, typically will include the criteria shown in Figure 5.

Figure 5: Typical Prequalification Evaluation Criteria



[a] Depending on specific project requirements, other requirements like technical capacity may be included either in experience or key activities.

Source: Asian Development Bank.

4.11 The eligibility and historical contract nonperformance evaluation criteria are discussed below. For details on other aspects of evaluation criteria, refer to the SPQD.

1. Eligibility

4.12 The SPQD specifies the criteria used to determine whether applicants are eligible to participate in projects. An applicant will not be eligible under a project that ADB finances, administers, or supports while under temporary suspension or debarment by ADB, pursuant to the ADB Anticorruption Policy (1998, as amended to date)[4] and the ADB Integrity Principles and Guidelines (2015, as amended from time to time),[5] whether such debarment was directly imposed by ADB, or enforced by ADB pursuant to the Agreement for Mutual Enforcement of Debarment Decisions (2006).[6] An applicant that has a conflict of interest, or is suspended or debarred will be rejected. An application for prequalification from an ineligible applicant must be rejected.[7]

4.13 State-owned enterprises are eligible to participate provided they meet the requirements included in the prequalification documents. For further details, refer to *Guidance Note on State-Owned Enterprises.*

4.14 Some borrowers maintain registers of contractors and suppliers. Such registers cannot be used as substitute for the prequalification process under open competitive bidding. Prequalification is open to all applicants who meet the eligibility requirements as defined in the specific prequalification documents.

2. Historical Contract Nonperformance

4.15 Evaluation of historical contract nonperformance is new to the prequalification process. This criterion seeks to identify applicants that have a history of contract nonperformance. Refer to the SPQD for more information.

4.16 The preferred method for distribution of the prequalification document is electronic. Where documents are distributed in hard copy, a nominal fee may be charged.

4.17 Sufficient time should be allowed for the submission of applications—from the date of publication of the IFP—to enable applicants to properly prepare their applications. For less complex contracts, a minimum of 6 weeks for internationally advertised contracts and 4 weeks for nationally advertised contracts

---

4 ADB. 2010. *Anticorruption and Integrity.* Manila. https://www.adb.org/sites/default/files/institutional-document/31317/anticorruption-integrity-policy-strategy.pdf.

5 ADB. 2015. *Integrity Principles and Guidelines (2015).* Manila. https://www.adb.org/sites/default/files/institutional-document/32131/integrity-principles-guidelines.pdf.

6 Available at: https://www.adb.org/sites/default/files/institutional-document/32774/files/cross-debarment-agreement.pdf.

7 The Sanctions List is available at https://lnadbg4.adb.org/oga0009p.nsf/alldocs/AANA-AAFBDE?OpenDocument.

are recommended. These periods may be reduced where electronic procurement is used. Such periods should be shortened or lengthened appropriately depending on the nature and complexity of contracts.

4.18 After issuance of the prequalification document, borrowers must promptly respond to requests for clarifications from applicants and amend, as needed, the prequalification document. Where prior review is required, the prequalification document may be amended only with the prior approval of ADB (for details on review requirements, refer to the *Guidance Note on Procurement Review*).

C. Step 3: Submission and Evaluation of Applications

4.19 The borrower should perform due diligence on the qualifications of the applicant, including rigorous and careful review of supporting documents, to be assured of their eligibility and capabilities in relation to the contract at issue. During the evaluation, the borrower must

(i) maintain strict confidentiality throughout the evaluation process,
(ii) reject any attempts or pressures to distort the outcome of the evaluation and maintain the highest ethical standards, and
(iii) strictly apply only and all the qualification criteria specified in the prequalification document.

4.20 After evaluating applications, borrowers should prepare a Prequalification Evaluation Report (PQER). The report must be self-contained and should

(i) address each of the criteria set out in the prequalification document and
(ii) explain reasons for any disqualification of applicants failing to meet the criteria. For further information, refer to ADB's *Guide on Bid Evaluation* (2018).

4.21 The report should be submitted to ADB where prior review is being applied. ADB may then ask the borrower to justify the evaluation and provide further information or clarification.

4.22 In exceptional circumstances, where the prequalification exercise is found to be flawed (e.g., the prequalification criteria were set such that no, or very few, applicants were able to meet the requirements for prequalification, yet it is known that the supply market has the capability to adequately perform the contract), the borrower can either accept the result and move forward with the bid, or declare the prequalification exercise void and progress to an open bid. Alternatively, the borrower can revise the prequalification document and reconduct the exercise; however, this should only be done where this will lead to improved competition and improved project outcomes. Where prior review is required, ADB should be consulted on the course of action.

D. Step 4: Notification of Applicants

4.23 The last step in the process is to inform all applicants, in writing, of the outcome of the prequalification assessment. For each applicant, the outcome can be

(i) applicant meets the criteria and has been prequalified or
(ii) applicant has not met the criteria and has not been prequalified.

4.24 Where applicants have been disqualified, specific reasons should be given for the rejection of their application.

4.25 The borrower should publish the list of prequalified applicants, and invite prequalified applicants to bid as soon as possible. ADB does not recommend long gaps between the completion of prequalification and the start of the bidding process. It also encourages the bidding documents to be made available to the prequalified prospective applicant as soon as prequalification is completed, generally within 6 months upon receipt of a no-objection notice from ADB. A period longer than 6 months may require a fresh prequalification process or other suitable options, with prior agreement with ADB.

4.26 The borrower should make clear to qualified applicants that verification of the information provided during prequalification may occur at the time of bidding, and that if the information is unable to be verified satisfactorily, the applicant's bid may be rejected at the discretion of the borrower.

V. Resources for Further Review

5.1 These resources may be consulted for further information related to prequalification:

(i) Guide on Bid Evaluation:
https://www.adb.org/documents/guide-bid-evaluation
(ii) Standard Procurement Document for Prequalification of Bidders:
https://www.adb.org/site/business-opportunities/operational-procurement/goods-services/documents#prequalification
(iii) User's Guide to Prequalification of Bidders:
https://www.adb.org/documents/prequalification-bidders-users-guide

Prequalification

Guidance Note on Procurement

This guidance note discusses prequalification as a mechanism to ensure that only qualified applicants submit bids for the supply of goods, works, and services, and processes to be followed for projects financed in whole or in part by an ADB loan or grant, or by ADB-administered funds. Under ADB's 2017 procurement framework, there are new features to the prequalification process, including the ability to limit the number of qualified applicants that are invited to bid and criteria for historical contract nonperformance. Prequalification is optional and should be used on a "fit-for-purpose" basis, where the nature and complexity of the contract enable the value of prequalification to exceed its costs and risks.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org